

Message Text

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ACTION ARA-14

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FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC IMMEDIATE 5762

C O N F I D E N T I A L MANAGUA 0802

FOR ASSISTANT SECRETARY TODMAN AND AID ASSISTANT ADMINISTRATOR
VALDEZ FROM AMBASSADOR

E.O. 11652: GDS

TAGS: PINS0' EAID, SHUM, NU

SUBJECT: RECONSTRUCTION LOAN

REF: (A) STATE 039499 (B) MANAGUA 0597

SUMMARY: I HAVE REVIEWED THE PROPOSED ALTERNATIVE FOR HANDLING
THE RECONSTRUCTION PROGRAM. IN LIGHT OF THE PRESENT POLITICAL
SITUATION HERE, INCLUDING ONGOING SENSITIVE AND IMPORTANT NEGOTI-
ATIONS WITH PRESIDENT SOMOZA, THERE ARE ASPECTS OF THAT PROPOSAL
THAT CAUSE ME CONCERN AND I ASK THAT AID/W RECONSIDER THE
FEASIBILITY OF OPTION B PROPOSED IN REF B.

1. I AM IN THE MIDST OF SENSITIVE NEGOTIATIONS WITH
PRESIDENT SOMOZA. WE ARE SEEKING SUBSTANTIAL CONCESSIONS
IN THE AREA OF POLITICAL REFORM WHICH COULD BE OF CRUCIAL
IMPORTANCE IN MEETING THE DEMANDS OF THE NICARAGUAN PEOPLE
FOR MORE POLITCAL, ECONOMIC AND SOCIAL JUSTICE WITHOUT
THE RISK TO OUR INTERESTS THAT WOULD RESULT FROM
FURTHER VIOLENCE. I WOULD LIKE TO AVOID ANY
EXTRANEIOUS IRRITANTS THAT COULD PREJUDICE THESE
NEGOTIATIONS. ACCORDINGLY, I AM CONCERNED THAT THE
PACKAGE AS NOW PROPOSED WOULD BE HIGHLY PROBLEMATICAL
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TO NEGOTIATE, SINCE IT GOES BEYOND THE CURRENT
AGREEMENT BY IMPOSING ADDITIONAL BURDENS ON THE GON
WITHOUT ANY COMPENSATING FACTOR TO INDUCE THEIR
ACCEPTANCE. ON THE OTHER HAND, SEVERAL ELEMENTS OF
OPTION B IMPRESS ME AS PARTICULARLY DESIRABLE.

(A) TO CONCENTRATE AID FINANCING AND USG PRESENCE

ON FEWER AND HIGHER PRIORITY PROJECTS WILL REDUCE SIGNIFICANTLY OUR PROFILE IN SUPPORT OF GON PROJECTS AT A TIME WHEN U.S. POLICY FAVORS AS NEUTRAL A POSITION AS POSSIBLE IN A HIGHLY POLARIZED POLITICAL SETTING.

(B) SIMILARLY RELATIVE TO PROFILE, THE DISENGAGEMENT FROM A NUMBER OF PROJECTS THAT WILL BE FINANCED AND FINISHED BY THE GON AT A LATER TIME, AFTER OUR DIRECT PARTICIPATION IN THE RECONSTRUCTION OF MANAGUA ENDS IN JUNE 1979, IS DESIRABLE.

(C) POSTPONEMENT OF CONSTRUCTION OF GON-FINANCED PROJECTS AVOIDS THE HIGHER PEAKS IN CONSTRUCTION ACTIVITY CAUSED BY PACKING ALL 12 REMAINING PROJECTS INTO A 16-MONTH PERIOD. THE HEIGHT OF THOSE PEAKS IS A PRINCIPAL DETERMINANT IN THE PROFILE OF A TOTAL PRAI PROGRAM WITH WHICH, IN THE ABSENCE OF ALLOWING MORE TIME, THE USG WILL BE IDENTIFIED TO SOME DEGREE, REGARDLESS OF OUR FINANCIAL DISENGAGEMENT FROM ITS COMPONENT PROJECTS.

(D) TO POSTPONE COMPLETION OF THE GON-FINANCED PROJECTS WOULD PERMIT THE AID MISSION, THE NICARAGUAN COUNTERPARTS AND PRIVATE SECTOR TO CONCENTRATE BETWEEN NOW AND JUNE 1979 ON CLEAN COMPLETION OF THE AID-FINANCED PROJECTS, INCLUDING PROVISION OF ADEQUATE EQUIPMENT AND STAFFING. IT IS IMPORTANT TO TERMINATE OUR INVOLVEMENT
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IN THE RECONSTRUCTION PROGRAM AS SOON AS POSSIBLE, BUT IT IS JUST AS IMPORTANT TO DO IT AS CLEANLY AS POSSIBLE, WITHOUT CREATING PROBLEMS WHICH MIGHT ADVERSELY AFFECT OTHER IMPORTANT ELEMENTS OF OUR RELATIONS WITH NICARAGUA. THE RESIDUAL MONITORING U.S. PRESENCE BEYOND JUNE 1979 TO ENSURE SUBSTANTIAL GON COMPLIANCE WITH COUNTERPART CONTRIBUTION REQUIREMENTS WILL NOT BE A LARGE, HIGHLY VISIBLE ONE.

2. THE PROPOSED REVISION OF OPTION B RETAINS THE SCOPE REDUCTION ELEMENT OF PARA 1(A) ABOVE, BUT THE ELIMINATION OF ADDITIONAL TIME FOR GON-FINANCED, NON-AID, PROJECTS DENIES THE OTHER OPTION B ADVANTAGES NOTED ABOVE. MOREOVER, WHILE WE CAN SYMPATHIZE WITH ITS PURPOSE, THE PROPOSED 25 PERCENT PENALTY TO ENFORCE FULL EQUIPMENT AND STAFFING OF FACILITIES WITHIN THREE MONTHS OF THE LOAN TDD IS A SUBSTANTIAL SANCTION BEYOND THE PRESENT PROVISIONS OF THE LOAN AGREEMENT, WHICH POSES A MAJOR NEGOTIATING PROBLEM, AS IT IMPLIES A UNILATERAL WORSENING OF TERMS FOR GON.

3. I SHARE YOUR EVIDENT CONCERN THAT WE NOT MAKE

ANY MORE CONCESSIONS THAN NECESSARY, BUT I DO
SEE A NEED FOR SOME GIVE TO ENABLE NEGOTIATION OF THE
CHANGES WE CONSIDER IMPORTANT TO OUR OWN INTERESTS.
IN THIS RESPECT, THE ADDITIONAL TIME FOR THE GON TO
COMPLETE THE GON-FINANCED, REPEAT GON-FINANCED, PROJECTS IS MOST
USEFUL IN THAT IT SERVES OUR OWN INTERESTS IN 1(B) AND 1(C)
ABOVE, WHILE PROVIDING AN INOFFENSIVE RATIONALE FOR
REDUCING THE NUMBER OF PROJECTS FINANCED BY US (APART
FROM OUR OWN INTEREST IN REDUCING AID/USG PROFILE).

4. IN SHORT, IT DOES NOT SERVE OUR FOREIGN POLICY
NEEDS TO HAVE AN AID-FINANCED CONSTRUCTION PROGRAM
OF THE MAGNITUDE (NUMBER OF PROJECTS) NOW UNDERWAY
THROUGH JUNE 1979; IT WOULD SERVE OUR NEEDS TO BE
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INVOLVED IN A SMALLER NUMBER OF PROJECTS THROUGH
JUNE 1979 AND TO TERMINATE THEN ALL BUT A RESIDUAL
MONITORING ROLE ON THE PART OF AID; IT WOULD NOT
SERVE OUR MAJOR POLITICAL OBJECTIVES TO HAVE
UNNEDESSARY PROBLEMS RELATIVE TO THAT PROGRAM EITHER
NOW OR IN 1979. IT SEE OPTION B AS TENDING TO REDUCE
THE LIKELIHOOD OF SUCH PROBLEMS, EITHER FROM LOAN
RENEGOTIATION NOW, OR FROM DELAY IN COMPLETION,
EQUIPMENT AND STAFFING OF AID-FINANCED FACILITIES IN
1979, OR FROM UNNECESSARILY HIGH PRAI PROGRAM PROFILE
IN THE INTERIM. I WOULD APPRECIATE YOUR RECONSIDERATION
OF THE FEASIBILITY OF OPTION B.

5. THE HANDLING OF LOAN 030, LAND VALUATION AND OTHER
MATTERS RAISED IN YOUR CABLE WILL BE COVERED IN A
SEPARATE AIDAC MESSAGE.
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